

26 February 2018

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SMARTENING UP OUR ACT

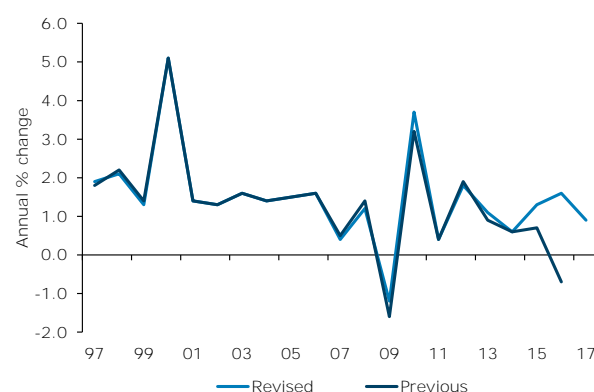
ECONOMIC OVERVIEW

The latest data shows New Zealand's recent labour productivity performance now fits into the 'not too bad' category, rather than being in the woeful state previous figures implied. Like recent GDP revisions, it helps to square the circle on a number of issues: strong corporate profit margins, modest inflation pressures and the relative strength in the real exchange rate. However, it doesn't alter our view that at a time of slowing population growth and a more constrained labour market, more onus will fall on productivity growth to sustain reasonable rates of GDP growth going forward. That is possible, and we are hopeful, but it is likely to require greater levels of capital investment than has been the case recently. Shifts in the relative price of labour and capital look set to help, but other tweaks (like some of the measures the new Government are suggesting) may assist as well. This week, a number of our proprietary indicators will be watched to gauge early-2018 momentum. The terms of trade should post a new all-time high, and a small monthly trade balance looks set to be reported.

CHART OF THE WEEK

The latest labour productivity growth figures showed a far better performance than previously reported.

Measured sector labour productivity growth (March years)



Source: Statistics NZ, ANZ Research

THE ANZ HEATMAP

Variable	View	Comment	Risk profile (change to view)
GDP	3.1% y/y for 2018 Q3	The economy is not quite firing on all cylinders. However, we see growth holding around 3% (trend) on average.	Neutral Negative Positive
Unemployment rate	4.2% for 2018 Q3	The unemployment rate should fall a touch more. Wage growth is benign, but conditions for change are emerging.	Neutral Negative Positive
OCR	1.75% by Sep 2018	With plenty of question marks over the outlook for inflation, it is still a backdrop where we believe the RBNZ will be cautious in tightening policy.	Neutral Down Up
CPI	1.5% y/y for 2018 Q3	In part due to policy changes and base effects, headline inflation will fall over the next 12 months. But domestic and core inflation should lift gradually.	Neutral Negative Positive

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SUMMARY

The latest data shows **New Zealand's** recent labour productivity performance now **fits into the 'not too bad'** category, rather than being in the woeful state previous figures implied. Like recent GDP revisions, it helps to square the circle on a number of issues: strong corporate profit margins, modest inflation pressures and the relative strength in the **real exchange rate**. **However, it doesn't alter our view** that at a time of slowing population growth and a more constrained labour market, more onus will fall on productivity growth to sustain reasonable rates of GDP growth going forward. That is possible, and we are hopeful, but it is likely to require greater levels of capital investment than has been the case recently. Shifts in the relative price of labour and capital look set to help, but other tweaks (like some of the measures the new Government are suggesting) may assist as well. This week, a number of our proprietary indicators will be watched to gauge early-2018 momentum. The terms of trade should post a new all-time high, and a small monthly trade balance looks set to be reported.

FORTHCOMING EVENTS

Overseas Merchandise Trade – January (10:45am, Tuesday, 27 February). We expect a monthly trade surplus of \$150m.

RBNZ New Mortgage Lending – January (3:00pm, Tuesday, 27 February). With the value of housing market turnover up off its lows, new mortgage lending should continue to recover too.

International Travel and Migration – January (10:45am, Wednesday, 28 February). We believe net migrant inflows **have passed their peak**, but we don't see them falling sharply.

ANZ Business Outlook – February (1:00pm, Wednesday, 28 February).

RBNZ Sectoral Lending – January (3:00pm, Wednesday, 28 February). The overall rate of credit growth should remain modest, implying the ratio of private sector credit to GDP will be broadly stable, if not slightly lower.

ANZ Job Ads – February (10:00am, Thursday, 1 March).

Overseas Trade Indexes – Q4 (10:45am, Thursday, 1 March). Driven by broad-based export commodity price strength, we expect the terms of trade to rise by 1.0% q/q off already all-time highs.

ANZ-Roy Morgan Consumer Confidence – February (10:00am, Friday, 2 March)

Building Consent Issuance – January (10:45am, Friday, 2 March). After falling sharply in December, issuance may rebound. However, we struggle to see it pushing above recent levels.

WHAT'S THE VIEW?

New Zealand's latest official productivity figures have an undeniably better feel about them. In the year to March 2017, labour productivity growth in the measured sector (comprising about 80% of the economy – it excludes the likes of the public administration and safety, education and training, and health care and social assistance sectors) rose 0.9%. This lift was driven by a 1.0% lift in multi-factor productivity, offset by a 0.1% fall in the capital-to-labour ratio. Not only this, but courtesy of the recent significant revisions to GDP growth, labour productivity growth in the years to March 2015 and 2016 was revised up to 1.3% and 1.6% (from 0.7% and -0.7% respectively). It means that since 2008, average annual labour productivity growth is now reported to have been 1.1%, versus 0.8% previously. It turns what was a poor story into something of the **'not too bad'** variety.

Figure 1: Measured sector labour productivity growth (March years)



Source: Statistics NZ, ANZ Research

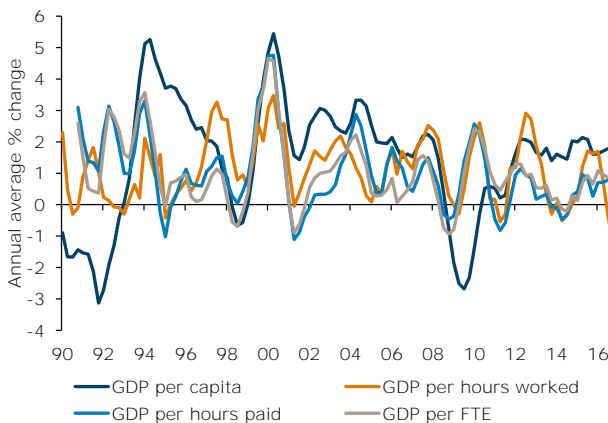
In many ways, this better productivity picture, like the earlier reported GDP revisions, squares the circle on a number of issues:

- **It fits better with anecdote.** Our travels around the country over recent years have continued to highlight a considerable drive for cost control and efficiency improvements over a number of industries. Average annual growth in multi-factor productivity (effectively a measure of the overall efficiency of how labour and capital inputs are used in the production process) is now reported to have averaged 1.0% since 2013, compared with just 0.4% previously reported.

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- **It helps explain modest domestic inflation pressures**, via its implications for the economy’s supply-side potential (which appears to be higher) and unit labour costs.
- **It is also more consistent with what has been a strong backdrop for corporate profitability and margins.** Our estimate of corporate profit margins, at around 21% of GNP at present, is well up from the 18.5% average over 2011 and 2012. It marries up with the strong ‘experienced profitability’ performance from the likes of the Quarterly Survey of Business Opinion (until recently at least).
- **It arguably helps explain the relative strength in New Zealand’s real exchange rate over recent years.**¹

Figure 2: Various economy-wide estimates of labour productivity growth



Source: Statistics NZ, ANZ Research

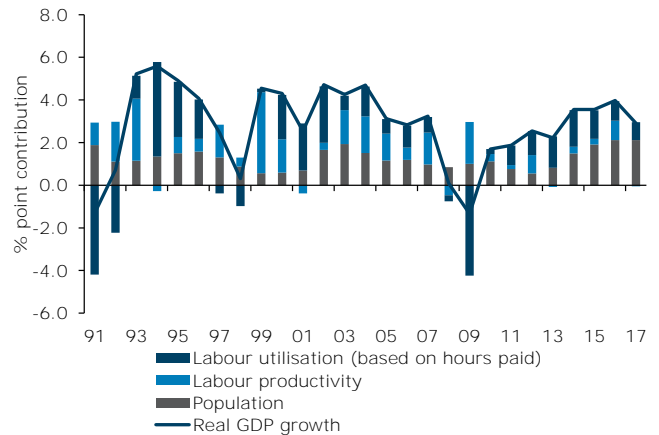
To be fair, economy-wide productivity estimates falling out of more recent quarterly GDP figures are not quite as upbeat (figure 2). We need to be a little careful with making direct comparisons, as the official productivity figures are measured on a slightly different basis, and recent methodological changes to the likes of the HLFs have likely inflated employment and hours worked numbers (thereby diluting implied productivity) over recent years. Nevertheless, GDP per hour worked (from the HLFs), GDP per hour paid and GDP per full-time equivalent employee (from the Quarterly Employment Survey) are all providing the same signal: a moderation in productivity growth recently. Productivity is highly cyclical and so when **assessing an economy’s productivity performance** it is best to look at the average over a number of years, rather than just a snapshot. Nonetheless, **a weaker trend is something that needs to be watched, as**

¹ The Balassa-Samuelson effect: countries with higher productivity growth experience higher wage growth and hence higher real exchange rates. New Zealand’s recent real wage performance has hardly been strong, but it has outperformed many other countries.

productivity performance typically does fade as an expansion matures.

We are still of the view that labour productivity growth will have to perform (and in fact do even better) if recent rates of GDP growth are to be maintained. Population growth is likely past its peak as net migrant inflows slow, and it is unlikely that growth in rates of labour utilisation can be maintained when both the employment rate and the participation rate are already effectively at all-time highs. Hence the onus will fall on labour productivity growth to be more of a driver going forward.

Figure 3: GDP growth decomposition (years to December - including ANZ’s forecast for Q4)



Source: Statistics NZ, ANZ Research

We are hopeful, for a few reasons. The economy continues to make progress on moving up the value-add chain in terms of our commodity exports, and it is perhaps under-appreciated how this is now flowing through to our terms of trade and incomes. The economy continues to rank strongly in measures of international competitiveness and ease of doing business. And the negative impact of natural disasters, which undoubtedly must have had an impact on the efficient allocation of capital, should also start to wane.

But greater investment in capital will likely be necessary to deliver a labour productivity dividend. New Zealand’s ratio of capital to labour has effectively been unchanged since 2010. In economist parlance, there has been no ‘capital deepening’, in contrast to the prior 10 years, where that ratio grew at an average pace of 2.0% per year. It means that the labour productivity growth that has been experienced over recent years has effectively been driven entirely by multi-factor productivity. That is impressive in its own way, but it is unlikely to be sustainable without further capital investment.

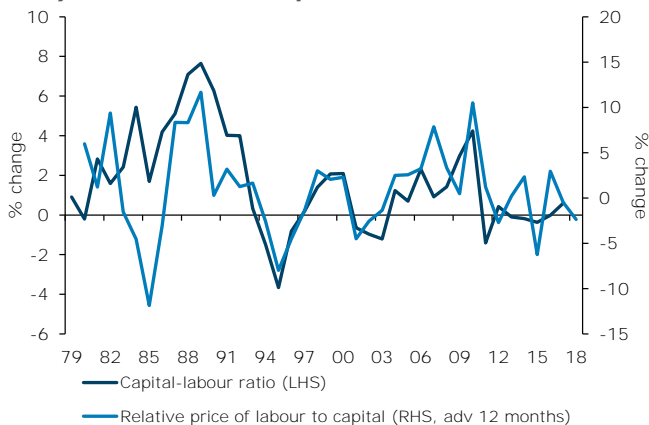
What reasons are there to be optimistic on the investment front?



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- **A tighter labour market will force firms to look at alternatives.** Firms continue to report that it is extremely difficult to find skilled staff. In fact, within our Small Business Microscope, it is the biggest problem facing firms. While the unemployment rate could of course fall further (and the underutilisation rate at 12.2% suggests there is still a pool of labour available), it is more about the skills that labour possesses rather than the number of workers *per se*. That is a harder problem to solve, and could see firms look at other ways to expand capacity, ie through capital investment and automation. We are certainly hearing anecdotes to that effect.
- **The relative price of labour and capital should start to shift.** One clear reason why the ratio of capital to labour hasn't risen is that relative prices haven't been sending that signal. That is, it has been relatively cheap to throw labour at the problem of increasing output rather than take the risk of capital investment. But with tentative signs that wage growth is starting to rise (due to both policy changes and a tight labour market), the attractiveness of capital investment should increase. The elevated NZD should help too, by making imported capital equipment cheaper.

Figure 4: Change in capital-labour ratio (economy-wide) and relative factor prices



Source: Statistics NZ, ANZ Research

- **Some of the changes the new Government are making or considering should perhaps assist.**
 - Reducing housing's relative attractiveness as an investment (through both demand and supply side measures) should, at least at the margin, free up some financial capital for more productive endeavours.
 - Along the same lines, we'd also like to see steps taken to help boost national saving rates further.
 - Likewise, we agree with the re-introduction of

R&D tax credits as the New Zealand economy continues to languish in international comparisons in terms of both its relative spend on R&D and government support for it.

Naturally, measures adopted would need to be **monitored to ensure firms don't rot the system.**

- The new CPTPP agreement should be beneficial, not just in terms of its direct trade implications, but also in promoting greater international relationships and access to global supply chains, which for a country that is a long way from key markets, is critical.
- It is of course not all one-way traffic though; we are a little mindful of the implications of a more restrictive foreign investment regime.
- **Although surveyed business confidence took a hit after the election, we are picking up a vibe of 'just getting on with it'.** The risk profile around the near-term growth picture doesn't appear as negatively skewed as it was, and we have actually lifted our Q4 GDP pick to a pretty solid 0.7% q/q (3.1% y/y) after the strong retail trade data last week. The broader outlook for the economy, while not expected to hit the pace of growth experienced over 2015/16, should still be solid, providing firms with the confidence to continue to put cash to work.
- **We have a good base to build on in the digital space.** Newsroom this week reported on a study by The Fletcher School that found New Zealand was one of only four "stand out" countries in terms of our digital capability.² The result partly reflected the speed and breadth of broadband, and the proportion of government services online, but there are 100 indicators.

In one sense, revisions to historical productivity statistics don't 'matter' in that they don't change a thing about how well off we are at this point in time. We can all feel a bit better about ourselves. **But in a broader sense, productivity growth is everything** in terms of economic growth that improves lives over the long run. **It's good to hear we have been working smarter as well as harder**, but with the economy and labour market starting to hit its physical limits, the 'smarter' bit needs to take a step up. That needs better tools.

The domestic data calendar gets a little busier this week. Firstly, a number of our proprietary gauges for February (business and consumer confidence plus job ads) will give an updated

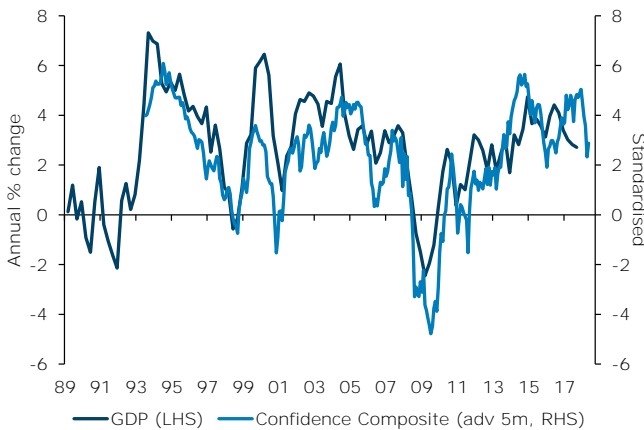
² <https://pro.newsroom.co.nz/articles/2490-early-in-the-race-nz-is-a-leader-among-digital-nations>

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read on early-2018 economic momentum.

- Business Outlook:** After tumbling in November to the lowest level since 2009, business confidence was little changed in December, with a net 38% of firms pessimistic about the year ahead. Confidence remained negative across all five sub-sectors. **However, firms' views on their own activity did bounce modestly, with a net 16% upbeat on their own prospects (up from +7%),** although that remains below prior levels and the historical average (+28%). The question ahead of the February figures is therefore whether or not the factors that appear to have weighed on sentiment (political uncertainty and soft housing market activity) have continued to do so.
- Consumer Confidence:** The ANZ-Roy Morgan Consumer Index lifted from 121.8 to 126.9 in January. It is still three points off the September 2017 high, but is at a pretty robust level. With the housing market stabilising and the labour market remaining strong, consumers are clearly feeling upbeat. But whether or not that optimism translates into stronger levels of consumption growth at a time when the household saving rate has turned increasingly negative is an interesting question.

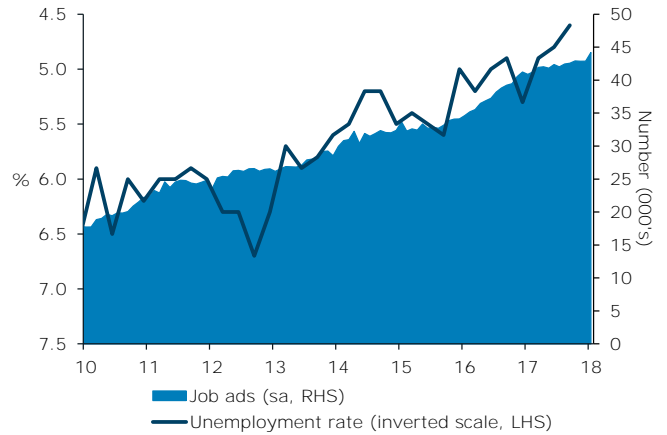
Figure 5: GDP versus Confidence Composite



Source: Statistics NZ, ANZ Research

- Job Ads:** Total job advertising rose 3.1% m/m in January, which was the strongest monthly increase in three years. This follows a period where job ads had flattened off at a high level, so at face value perhaps suggests signs of a second wind. Certainly ongoing strong job ads growth would see us reassess our expectations of a moderation in overall employment growth over the coming 12 months or so off current strong levels.

Figure 6: Job ads versus the unemployment rate



Source: Statistics NZ, Seek, Trade Me, ANZ Research

We expect January overseas merchandise trade figures to show a small monthly surplus of \$150m.

But after the exceptionally strong export performance in December, where seasonally export values surged 13% m/m to a new all-time high, we expect a degree of pull-back. Part of the reason for this is that we suspect some of that strength was driven by temporary factors relating to Chinese dairy demand for the free-trade window, and a greater-than-usual degree of livestock slaughtering (boosting meat exports) on earlier drought fears. In saying that, some of the recent strength in import values could also start to slow, with anecdotes suggesting big-ticket retailers (including car dealerships) are reassessing inventory levels.

Figure 7: Total merchandise export values



Source: Statistics NZ, ANZ Research

Overseas Trade Indexes for Q4 are likely to show the terms of trade increasing further from what are already all-time high levels.

We have pencilled in a 1.0% q/q increase. While imported NZD crude oil prices surged 25% over the quarter and should lift overall NZD import prices by around 4% q/q, we don't believe that will be enough to offset a broad-based further lift (~5%) in NZD export prices. In addition, we estimate that associated volumes figures will show a

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circa 1.5% q/q lift in goods export volumes, led largely by meat and forestry.

Figure 8: Merchandise terms of trade

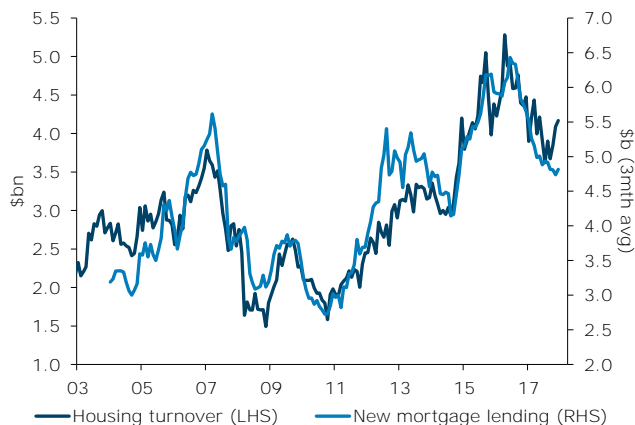


Source: Statistics NZ, ANZ Research

RBNZ new mortgage lending figures for January should lift off recent lows, in line with housing market activity.

We estimate that total housing market turnover has lifted around 17% from September, boosted by an increase in the volume of sales and also a modest bounce in house prices. This has yet to fully flow through into new mortgage lending (unsurprisingly; there is a lag between when a house is "sold" in the REINZ statistics and when it settles). While we estimate new mortgage lending is up around 5% from its September levels (sa), it is likely to increase further. The composition of this increased lending will be interesting, with anecdotes suggesting it is more likely to be first-home buyers or other owner occupiers than investors.

Figure 9: New mortgage lending and housing turnover



Source: REINZ, RBNZ, ANZ Research

But broader credit growth for January should remain modest.

In December, total private sector credit grew at just 0.2% m/m (sa), which saw annual growth fall below 5% for the first time since early 2015. It suggests the ratio of credit to GDP continues to fall. We estimate it to be a touch below 152%, down from close to 155% in mid-2016. That moderation has

been driven by not only more modest household lending but also slower agriculture lending due to improved cash flow in the dairy industry and lower working capital needs.

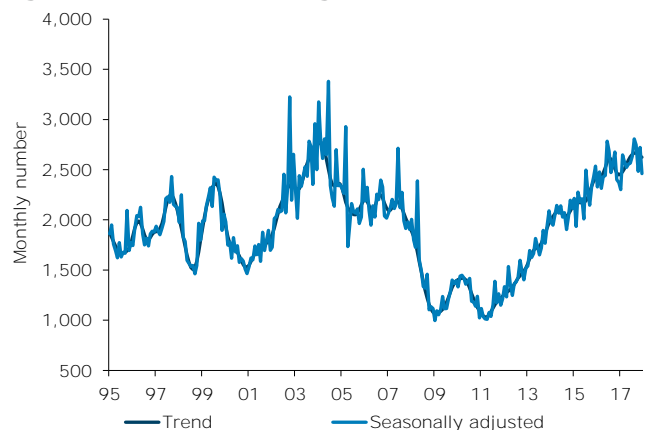
We expect net migration figures for January to continue recent themes, and show net inflows off their highs.

In seasonally adjusted terms, a net inflow of 5,700 migrants was recorded in December. This was the highest net inflow in five months, although only modestly so. In fact, after showing signs of easing, net migrant inflows have stabilised at a historically strong level. We're still of the view that due to natural cycling effects and the improved relative performance of the Australian labour market, net inflows will moderate – but only gradually.

After falling in December, January building consent issuance may bounce. However, we suspect recent ranges will hold.

The number of dwelling consents issued fell 9.6% m/m (sa) in December, continuing the roller-coaster ride of recent months. Coincidentally it follows a 9.6% m/m lift in November and 9.6% m/m fall in October. This volatility has been led entirely by the volatile multi-dwelling component, which we estimate fell 21% m/m. Issuance for 'houses' fell 2.3% m/m, its fifth consecutive fall. Looking through the monthly noise, issuance is effectively bouncing about at an elevated level. In trend terms, monthly issuance has hovered around 2,600 for the past 18 months, with the upside capped by capacity, capital and cost constraints.

Figure 10: National dwelling consent issuance



Source: Statistics NZ, ANZ Research

LOCAL DATA

PPI – Q4. Input prices rose 0.9% q/q, while output prices rose 1.0% q/q.

GlobalDairyTrade Auction. The GDT-TWI eased 0.5%, while whole milk powder prices rose 0.3%.

Retail Trade Survey – Q4. Total retail sales volumes rose 1.7% q/q.

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
26-Feb	UK	UK Finance Loans for Housing - Jan	37000	36115	22:30
27-Feb	US	Chicago Fed Nat Activity Index - Jan	0.20	0.27	02:30
	US	New Home Sales - Jan	648k	625k	04:00
	US	New Home Sales MoM - Jan	3.6%	-9.3%	04:00
	US	Dallas Fed Manf. Activity - Feb	30.0	33.4	04:30
	NZ	Trade Balance NZD - Jan	0M	640M	10:45
	NZ	Exports NZD - Jan	4.58B	5.55B	10:45
	NZ	Imports NZD - Jan	4.60B	4.91B	10:45
	NZ	Trade Balance 12 Mth YTD NZD - Jan	-2711M	-2837M	10:45
	AU	ANZ-RM Consumer Confidence Index - 25-Feb	--	115.3	11:30
	EC	M3 Money Supply YoY - Jan	4.6%	4.6%	22:00
	EC	Economic Confidence - Feb	114.0	114.7	23:00
	EC	Business Climate Indicator - Feb	1.47	1.54	23:00
	EC	Industrial Confidence - Feb	8.0	8.8	23:00
	EC	Services Confidence - Feb	16.3	16.7	23:00
	EC	Consumer Confidence - Feb F	0.1	0.1	23:00
28-Feb	GE	CPI MoM - Feb P	0.5%	-0.7%	02:00
	GE	CPI YoY - Feb P	1.5%	1.6%	02:00
	GE	CPI EU Harmonized MoM - Feb P	0.6%	-1.0%	02:00
	GE	CPI EU Harmonized YoY - Feb P	1.3%	1.4%	02:00
	US	Advance Goods Trade Balance - Jan	-\$72.5B	-\$72.3B	02:30
	US	Wholesale Inventories MoM - Jan P	0.4%	0.4%	02:30
	US	Durable Goods Orders - Jan P	-2.0%	2.8%	02:30
	US	Durables Ex Transportation - Jan P	0.4%	0.7%	02:30
	US	Cap Goods Orders Nondef Ex Air - Jan P	0.5%	-0.6%	02:30
	US	Cap Goods Ship Nondef Ex Air - Jan P	0.3%	0.4%	02:30
	US	House Price Purchase Index QoQ - Q4	--	1.4%	03:00
	US	FHFA House Price Index MoM - Dec	0.4%	0.4%	03:00
	US	S&P CoreLogic CS 20-City MoM SA - Dec	0.60%	0.75%	03:00
	US	S&P CoreLogic CS 20-City YoY NSA - Dec	6.35%	6.41%	03:00
	US	Richmond Fed Manufact. Index - Feb	15	14	04:00
	US	Conf. Board Consumer Confidence - Feb	126.4	125.4	04:00
	NZ	Net Migration SA - Jan	--	5700	10:45
	NZ	ANZ Activity Outlook - Feb	--	15.6	13:00
	NZ	ANZ Business Confidence - Feb	--	-37.8	13:00
	UK	GfK Consumer Confidence - Feb	-10	-9	13:01
	AU	Private Sector Credit MoM - Jan	0.4%	0.3%	13:30
	AU	Private Sector Credit YoY - Jan	5.0%	4.8%	13:30
	CH	Non-manufacturing PMI - Feb	55.0	55.3	14:00
	CH	Manufacturing PMI - Feb	51.2	51.3	14:00
	CH	Composite PMI - Feb	--	54.6	14:00
	GE	GfK Consumer Confidence - Mar	10.9	11	20:00
	GE	Unemployment Change (000's) - Feb	-15k	-24k	21:55
	GE	Unemployment Claims Rate SA - Feb	5.4%	5.4%	21:55
	EC	CPI Core YoY - Feb A	--	1.0%	23:00
	EC	CPI Estimate YoY - Feb	1.2%	1.3%	23:00
	UK	Nationwide House PX MoM - Feb	0.2%	0.6%	28 Feb - 4 Mar
	UK	Nationwide House Px NSA YoY - Feb	2.6%	3.2%	28 Feb - 4 Mar

Continued on following page

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
1-Mar	US	MBA Mortgage Applications - 23-Feb	--	-6.6%	01:00
	US	Personal Consumption - Q4 S	3.6%	3.8%	02:30
	US	GDP Annualized QoQ - Q4 S	2.5%	2.6%	02:30
	US	GDP Price Index - Q4 S	2.4%	2.4%	02:30
	US	Core PCE QoQ - Q4 S	1.9%	1.9%	02:30
	US	Chicago Purchasing Manager - Feb	64.6	65.7	03:45
	US	Pending Home Sales MoM - Jan	0.5%	0.5%	04:00
	US	Pending Home Sales NSA YoY - Jan	--	-1.8%	04:00
	NZ	ANZ Job Advertisements MoM - Feb	--	3.1%	10:00
	NZ	Terms of Trade Index QoQ - Q4	0.5%	0.7%	10:45
	AU	CBA Australia PMI Mfg - Feb	--	55.4	11:00
	AU	AiG Perf of Mfg Index - Feb	--	58.7	11:30
	AU	Private Capital Expenditure - Q4	1.0%	1.0%	13:30
	CH	Caixin PMI Mfg - Feb	51.3	51.5	14:45
	AU	Commodity Index SDR YoY - Feb	--	-0.6%	18:30
	AU	Commodity Index AUD - Feb	--	135.3	18:30
	GE	Markit/BME Manufacturing PMI - Feb F	60.3	60.3	21:55
	EC	Markit Manufacturing PMI - Feb F	58.5	58.5	22:00
	UK	Net Lending Sec. on Dwellings - Jan	£3.6B	£3.7B	22:30
	UK	Mortgage Approvals - Jan	62.0k	61.0k	22:30
	UK	Money Supply M4 MoM - Jan	--	-0.6%	22:30
	UK	M4 Money Supply YoY - Jan	--	3.7%	22:30
	UK	Markit PMI Manufacturing SA - Feb	55.0	55.3	22:30
	EC	Unemployment Rate - Jan	8.6%	8.7%	23:00
2-Mar	US	Personal Income - Jan	0.3%	0.4%	02:30
	US	Personal Spending - Jan	0.2%	0.4%	02:30
	US	PCE Deflator MoM - Jan	0.4%	0.1%	02:30
	US	PCE Deflator YoY - Jan	1.7%	1.7%	02:30
	US	PCE Core MoM - Jan	0.3%	0.2%	02:30
	US	PCE Core YoY - Jan	1.5%	1.5%	02:30
	US	Initial Jobless Claims - 24-Feb	226k	222k	02:30
	US	Continuing Claims - 17-Feb	1915k	1875k	02:30
	US	Markit Manufacturing PMI - Feb F	55.8	55.9	03:45
	US	Construction Spending MoM - Jan	0.3%	0.7%	04:00
	US	ISM Manufacturing - Feb	58.7	59.1	04:00
	NZ	ANZ Consumer Confidence Index - Feb	--	126.9	10:00
	NZ	Building Permits MoM - Jan	--	-9.6%	10:45
	GE	Retail Sales MoM - Jan	0.7%	-1.3%	20:00
	GE	Retail Sales YoY - Jan	3.3%	-1.9%	20:00
	GE	Import Price Index MoM - Jan	0.4%	0.3%	20:00
	GE	Import Price Index YoY - Jan	0.7%	1.1%	20:00
	UK	Markit/CIPS Construction PMI - Feb	50.5	50.2	22:30
	EC	PPI MoM - Jan	0.4%	0.2%	23:00
	EC	PPI YoY - Jan	1.6%	2.2%	23:00
3-Mar	US	U. of Mich. Sentiment - Feb F	99.5	99.9	04:00

Key: AU: Australia, EC: Eurozone, GE: Germany, JN: Japan, NZ: New Zealand, UK: United Kingdom, US: United States, CH: China.

Source: Dow Jones, Reuters, Bloomberg, ANZ Bank New Zealand Limited. All \$ values in local currency.

Note: All surveys are preliminary and subject to change

LOCAL DATA WATCH

We expect the near-term data flow to be a little more mixed, reflecting headwinds the economy is currently facing, but to remain positive overall. Inflation pressures are likely to remain contained.

DATE	DATA/EVENT	ECONOMIC SIGNAL	COMMENT
Tue 27 Feb (10:45am)	Overseas Merchandise Trade – Jan	Import strength	Import growth has been strong of late, but we suspect we'll see more modest growth over the coming months.
Tue 27 Feb (3:00pm)	RBNZ New Mortgage Lending – Jan	Lifting	With housing market turnover lifting off lows, new mortgage lending should do the same.
Wed 28 Feb (10:45am)	International Travel and Migration – Jan	Peaked	We don't see net inflows falling quickly, but we do believe that a peak has been seen.
Wed 28 Feb (1:00pm)	ANZ Business Outlook – Feb	--	--
Wed 28 Feb (3:00pm)	RBNZ Sectoral Lending – Jan	Modest	We see overall private sector credit growing in a fashion that keeps the ratio of credit to GDP roughly stable.
Thu 1 Mar (10:00am)	ANZ Job Ads – Feb	--	--
Thu 1 Mar (10:45am)	Overseas Trade Indexes – Q4	Off highs	After hitting an all-time high in Q3, we see the terms of trade falling modestly in the quarter.
Fri 2 Mar (10:00am)	ANZ-Roy Morgan Consumer Confidence – Feb	--	--
Fri 2 Mar (10:45am)	Building Consent Issuance – Jan	Capped	Due to cost, capital and capacity constraints, we continue to believe issuance will struggle to push much above current levels.
Mon 5 Mar (1:00pm)	ANZ Commodity Price Index – Feb	--	--
Wed 7 Mar (early am)	GlobalDairyTrade Auction	A breather	With concerns over local supply easing and more product added to the GDT platform, prices should take a breather.
Wed 7 Mar (10:45am)	Building Work Put in Place – Q4	Lift	Residential building work is likely to be higher, but consent issuance suggests a softer trend over H1 2018.
Thu 8 Mar (10:00am)	ANZ Truckometer – Feb	--	--
Thu 8 Mar (10:45am)	Economic Survey of Manufacturing – Q4	Mixed	The vagaries of milk production and livestock slaughtering will throw the numbers around, no doubt.
Fri 9 Mar (10:45am)	Electronic Card Transactions – Feb	Modest	We see households looking to rebuild precautionary saving, resulting in a modest underlying pace of spending growth.
Mon 12 Mar (1:00pm)	ANZ Monthly Inflation Gauge – Feb	--	--
12-16 Mar	REINZ Housing Market Statistics – Feb	Up, but stable	The market has staged somewhat of a comeback, but we don't see it turning into a full-blown resurgence.
Tue 13 Mar (10:45am)	Food Price Index – Feb	Down	Food prices typically ease in February.
Wed 14 Mar (10:45am)	Balance of Payments – Q4	Steady	The annual current account deficit is likely to be steady around 2½% of GDP.
Thu 15 Mar (10:45am)	GDP – Q4	Mixed	Our expectation is for somewhat modest growth of 0.5% q/q, although the risks are arguably upwardly skewed.
Fri 16 Mar (10:30am)	BNZ-BusinessNZ PMI - Feb	Decent	The index has bounced around a bit of late but we suspect it will hold at a steady level this month.
Mon 19 Mar (10:30am)	BNZ-BusinessNZ PSI – Feb	Robust	Services sector activity has continue to hold up despite a softer housing market. That should continue.
Wed 21 Mar (10:45am)	International Travel and Migration – February	Peaked	We don't see net inflows falling quickly, but we do believe that a peak has been seen.
Thu 22 Mar (9:00am)	RBNZ OCR Review	On hold	In what will be Grant Spencer's last outing as Governor, we are expecting an unchanged message.
On balance		Data watch	The data pulse has turned a little more mixed. Domestic inflation is low, but should lift gradually.

KEY FORECASTS AND RATES

	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19
GDP (% qoq)	0.6	0.7	0.6	0.9	0.9	0.8	0.7	0.7	0.7	0.6
GDP (% yoy)	2.7	3.1	2.9	2.8	3.1	3.2	3.3	3.1	2.8	2.6
CPI (% qoq)	0.5	0.1	0.5	0.3	0.6	0.2	0.6	0.6	0.7	0.1
CPI (% yoy)	1.9	1.6	1.1	1.4	1.5	1.6	1.7	2.1	2.2	2.0
Employment (% qoq)	2.2	0.5	0.5	0.4	0.4	0.3	0.3	0.3	0.3	0.3
Employment (% yoy)	4.2	3.7	3.2	3.6	1.8	1.6	1.4	1.3	1.2	1.2
Unemployment Rate (% sa)	4.6	4.5	4.3	4.3	4.2	4.2	4.1	4.1	4.1	4.2
Current Account (% GDP)	-2.5	-2.5	-2.1	-2.2	-2.3	-2.5	-2.5	-2.4	-2.4	-2.4
Terms of Trade (% qoq)	0.8	1.0	-1.6	-0.8	0.1	0.1	0.1	0.1	0.0	0.2
Terms of Trade (% yoy)	12.4	7.3	1.6	-0.6	-1.2	-2.1	-0.5	0.4	0.3	0.3

	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18
Retail ECT (% mom)	1.0	-0.4	0.1	-0.6	-0.1	0.3	0.5	1.3	0.6	1.4
Retail ECT (% yoy)	4.5	5.2	4.5	2.0	4.4	2.9	1.3	4.3	3.3	3.4
Credit Card Billings (% mom)	1.0	1.0	0.3	0.8	-0.6	0.8	1.0	0.9	0.6	-0.6
Credit Card Billings (% yoy)	6.6	7.6	8.3	7.1	6.5	5.0	3.0	9.1	6.2	4.6
Car Registrations (% mom)	-2.6	3.8	-2.6	-4.8	9.6	-1.5	2.2	1.2	-4.4	2.5
Car Registrations (% yoy)	3.0	13.7	11.1	6.2	13.5	15.6	7.3	7.3	4.7	6.2
Building Consents (% mom)	-2.1	1.3	0.4	2.8	6.4	-2.1	-9.6	9.6	-9.6	--
Building Consents (% yoy)	3.8	4.7	-7.8	-1.9	13.6	7.3	-7.2	13.3	3.8	--
REINZ House Price Index (% yoy)	9.1	6.7	5.4	3.3	2.8	3.8	3.4	3.5	3.7	3.4
Household Lending Growth (% mom)	0.5	0.4	0.6	0.3	0.4	0.5	0.4	0.5	0.5	--
Household Lending Growth (% yoy)	8.3	7.9	7.6	7.1	6.7	6.5	6.3	6.1	5.9	--
ANZ Roy Morgan Consumer Conf.	121.7	123.9	127.8	125.4	126.2	129.9	126.3	123.7	121.8	126.9
ANZ Business Confidence	11.0	14.9	24.8	19.4	18.3	0.0	-10.1	-39.3	-37.8	--
ANZ Own Activity Outlook	37.7	38.3	42.8	40.3	38.2	29.6	22.2	6.5	15.6	--
Trade Balance (\$m)	547	62	243	92	-1174	-1165	-841	-1233	640	--
Trade Bal (\$m ann)	52588	53218	53530	53742	53982	54085	54759	56003	56497	--
ANZ World Comm. Price Index (% mom)	-0.2	3.2	2.1	-0.8	-0.8	0.8	-0.3	-0.9	-1.9	0.7
ANZ World Comm. Price Index (% yoy)	23.7	26.3	24.6	21.1	16.3	11.5	10.4	6.0	3.2	4.1
Net Migration (sa)	5790	5940	6300	5720	5450	5250	5640	5660	5700	--
Net Migration (ann)	71885	71964	72305	72402	72072	70986	70694	70354	70016	--
ANZ Heavy Traffic Index (% mom)	-2.2	4.0	-0.5	-6.0	6.5	-1.5	2.9	1.1	-4.2	4.1
ANZ Light Traffic Index (% mom)	-1.4	1.2	1.2	-2.2	2.7	-0.1	-0.6	1.5	-1.7	-0.5

Figures in bold are forecasts. mom: Month-on-Month; qoq: Quarter-on-Quarter; yoy: Year-on-Year

KEY FORECASTS AND RATES

FX RATES	ACTUAL			FORECAST (END MONTH)						
	Dec-17	Jan-18	Today	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19
NZD/USD	0.710	0.740	0.729	0.71	0.70	0.69	0.67	0.66	0.65	0.65
NZD/AUD	0.909	0.914	0.930	0.92	0.92	0.93	0.93	0.94	0.93	0.93
NZD/EUR	0.591	0.595	0.593	0.57	0.56	0.54	0.52	0.51	0.50	0.50
NZD/JPY	79.99	80.53	78.15	76.7	74.2	71.8	69.0	66.0	64.4	63.1
NZD/GBP	0.525	0.523	0.521	0.53	0.52	0.50	0.49	0.48	0.47	0.47
NZ\$ TWI	73.0	74.2	75.1	72.1	71.0	69.8	67.9	66.7	65.6	65.4
INTEREST RATES	Dec-17	Jan-18	Today	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19
NZ OCR	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	2.00
NZ 90 day bill	1.88	1.89	1.91	1.90	1.93	1.95	1.98	2.00	2.08	2.34
NZ 10-yr bond	2.72	2.90	2.93	3.00	3.15	3.30	3.45	3.45	3.75	3.80
US Fed funds	1.50	1.50	1.50	1.50	1.75	2.00	2.25	2.25	2.50	2.50
US 3-mth	1.69	1.77	1.96	1.88	2.05	2.20	2.45	2.45	2.70	2.70
AU Cash Rate	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.75	1.75
AU 3-mth	1.80	1.78	1.78	1.80	1.80	1.80	1.80	1.80	2.00	2.00

	23 Jan	19 Feb	20 Feb	21 Feb	22 Feb	23 Feb
Official Cash Rate	1.75	1.75	1.75	1.75	1.75	1.75
90 day bank bill	1.88	1.92	1.92	1.92	1.93	1.92
NZGB 05/21	2.20	2.07	2.06	2.07	2.05	2.06
NZGB 04/23	2.47	2.42	2.42	2.43	2.41	2.41
NZGB 04/27	2.92	2.98	2.98	3.01	2.96	2.95
NZGB 04/33	3.25	3.35	3.34	3.37	3.31	3.31
2 year swap	2.24	2.17	2.18	2.17	2.19	2.18
5 year swap	2.78	2.72	2.73	2.72	2.73	2.72
RBNZ TWI	75.41	75.74	75.49	75.46	75.47	75.44
NZD/USD	0.7322	0.7391	0.7364	0.7349	0.7332	0.7302
NZD/AUD	0.9189	0.9323	0.9332	0.9349	0.9379	0.9306
NZD/JPY	81.01	78.73	78.91	78.92	78.70	78.05
NZD/GBP	0.5248	0.5269	0.5263	0.5267	0.5280	0.5221
NZD/EUR	0.5979	0.5949	0.5967	0.5961	0.5965	0.5932
AUD/USD	0.7968	0.7928	0.7891	0.7860	0.7817	0.7843
EUR/USD	1.2247	1.2425	1.2340	1.2327	1.2290	1.2295
USD/JPY	110.64	106.51	107.16	107.39	107.34	106.89
GBP/USD	1.3952	1.4028	1.3991	1.3952	1.3887	1.3971
Oil (US\$/bbl)	64.47	61.68	61.90	61.68	62.77	63.55
Gold (US\$/oz)	1336.37	1348.33	1337.84	1329.59	1323.69	1328.71
NZX 50	8308	8115	8098	8200	8267	8302
Baltic Dry Freight Index	1157	1087	1117	1146	1167	1185
NZX WMP Futures (US\$/t)	3150	3265	3265	3240	3235	3240

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